MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BFN3064 – ENTREPRENEURIAL FINANCE

(All sections / Groups)

10TH JULY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 6 pages (including cover page) with a total of 4 questions.
2. Answer **ALL** questions. Marks are shown at the end of each question.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (25 MARKS)

a) Discuss the important components of a good business plan. **(5 marks)**

b) Discuss how we use financial statements to assess the financial health of a startup. **(5 marks)**

c) Identify the seven principles of entrepreneurial finance. **(10.5 marks)**

d) Define the financial goal of the entrepreneurial venture and identify the major components for estimating value. **(4.5 marks)**

QUESTION 2 (25 MARKS)

Given the following Income Statements and Balance Sheets for SafetyCare Sdn Bhd, for 2021 and 2022 solve the following questions.

Income Statements (in RM Thousands)

	2021	2022
Net sales	3,750	4,500
Cost of goods sold	2,250	2,700
Gross profit	1,500	1,800
Operating expenses	670	860
Interest	30	40
Income before taxes	800	900
Income taxes	250	300
Net income	550	600

Balance Sheets (in RM Thousands)

	2021	2022
Cash	400	150
Accounts receivable	500	800
Inventories	1,450	2,000
Total current assets	2,350	2,950
Gross fixed assets	2,000	2,800
Less accumulated depreciation	-950	-1,250
Net fixed assets	1,050	1,550
Total assets	3,400	4,500

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	2021	2022
Accounts payable	300	400
Bank loan	150	250
Accrued liabilities	100	150
Total current liabilities	550	800
Long-term debt	150	150
Common stock	850	1,100
Retained earnings	1,850	2,450
Total liabilities and equity	3,400	4,500

a) Compute the net profit margin, the sales-to-total-assets ratio, and the equity multiplier for both 2021 and 2022 using year-end (rather than average) balance sheet data. **(6 marks)**

b) Use the results from Part (i) to compute the venture's return on equity in each year. **(2 marks)**

c) Describe what happened in terms of the financial performance of SafetyCare, Sdn Bhd. between 2021 and 2022. **(3 marks)**

d) Compute SafetyCare's cash build for 2022. **(2 marks)**

e) Compute SafetyCare's cash burn for 2022. **(4 marks)**

f) Determine whether the company has a net cash build or net cash burn for 2022. **(2 marks)**

g) Compute the length of SafetyCare's cash conversion cycle for 2022. **(6 marks)**

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Question 3 (25 marks)

A venture capitalist wants to estimate the value of a new venture which currently has 1,000,000 million shares. The venture is not expected to produce net income or earnings until the end of year 5 when the net income is estimated at RM1,500,000. A publicly traded competitor or "comparable firm" has current earnings of RM1,000,000 and a market capitalization value of RM12,000,000.

a) Estimate the value of the new venture at the end of year 5. **(5 marks)**

b) Estimate the present value of the venture at the end of year 0 if the venture capitalist wants a 50 percent annual rate of return on the investment. **(4 marks)**

c) Compute the number of shares that must be issued to the new investor for the investor to earn his/her 50 percent target return. **(5 marks)**

d) Compute the pre-money and post-money valuation. **(4 marks)**

e) Describe employee equity compensation and provide two reasons for having equity compensation in early-stage ventures. **(7 marks)**

Question 4 (25 Marks)

a) Given the following information, compute the survival revenue of the company.
Administrative expenses = RM200,000;
Marketing expenses = RM180,000;
Depreciation expenses = RM100,000;
Interest expenses = RM20,000; and
A variable cost revenue ratio = 0.50

(4 marks)

b) Describe the following terms from the perspective of venture performance:
(i) black hole (ii) living dead, and (iii) venture utopia. In what sense is the typical business plan utopian? **(8 marks)**

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c) The news below is extracted from The Star Online. Answer the following questions.

Investor Interest Still Lacking

With ongoing market education, equity crowdfunding (ECF) has been gaining traction as an alternative platform for small businesses to raise funds.

However, there is still a lack of public awareness around ECF, and this could pose a challenge for SMEs looking to raise capital through the channel.

"Acceptance among SMEs is growing and noticeably for the right reasons, and it is becoming a funding method of choice. But the public still suffers from a general lack of awareness and cultural bias against longer-term investment, and they will need incentivising to participate further," says Elain Lockman, co-founder, and director of Ata Plus.

"There have been some improvements in terms of awareness through new campaigns with the MyCIF Fund.

"However, we anticipate that without greater incentives and awareness building, finding local investors will continue to be challenging. And greater focus will need to be put on targeting and growing the foreign investor pool," she adds.

MyCIF – the Malaysia Co-Investment Fund – is administered by the Securities Commission (SC). The fund co-invests with the crowd in either an ECF or peer-to-peer (P2P) campaign to attract interest.

Last October, the government announced that another RM50mil will be allocated to the fund under Budget 2020.

Despite growing recognition for ECF, 2019 saw an unexpected slowdown in terms of overall funds raised and new campaigns launched. Elain attributes this to the overall confidence level in the general economy and the ongoing political situation.

However, the market also saw some positive movements with the three successful exits that took place last year. Elain notes that the willingness of some investors to stay on for the long-term for these exits was also heartening.

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"There is a healthy pipeline of new listings for Ata Plus from a diverse sector of industries. What has been noticeable is the average funding requirement is always near the maximum currently allowed which would suggest that a review of the limits set by the SC is in order if ECF is to show a healthy growth.
"Our focus this year will be on the investor with the launch of our secondary market and investor app.

"We feel the roll out of our secondary market this year will be a timely boost to incentivise greater investor participation. The only indicated concern by SC with regards to the secondary market is the level of liquidity permitted given the goal of encouraging a 'patient' investment but as we have witnessed in two of the exits in 2019, a majority of investors who participate in this asset class do so with a long-term view in mind," she says.

(Source: The Star, 15th February 2020)

i. Explain equity crowdfunding and how equity crowdfunding closes the financing gap for small-and medium enterprises. **(4 marks)**

ii. Based on your opinion, discuss the three possible challenges encountered by equity crowdfunding lending platform in Malaysia. **(9 marks)**

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